

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name HURON REGIONAL WATER AUTHORITY		County HURON	
Fiscal Year End SEPTEMBER 30, 2006		Opinion Date JANUARY 22, 2007		Date Audit Report Submitted to State MARCH 29, 2007			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  4. ☒ ☐ The local unit has adopted a budget for all required funds.
  5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  11. ☒ ☐ The local unit is free of repeated comments from previous years.
  12. ☒ ☐ The audit opinion is UNQUALIFIED.
  13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input type="checkbox"/>	NO FINDINGS	
Other (Describe)		<input checked="" type="checkbox"/>	SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	
Certified Public Accountant (Firm Name) BRINING & NARTKER, P.C.			Telephone Number (989) 269-9909	
Street Address 64 WESTLAND DRIVE			City BAD AXE	State MI
			Zip 48413	
Authorizing CRA Signature <i>Brining &amp; Nartker P.C.</i> by: <i>Douglas P. Brining CPA</i>		Printed Name DOUGLAS P. BRINING, CPA		License Number 8283

**HURON REGIONAL WATER AUTHORITY  
PORT AUSTIN, MICHIGAN**

**FINANCIAL REPORT  
SEPTEMBER 30, 2006**

**HURON REGIONAL WATER AUTHORITY**

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1 – 2</b>
<b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>3</b>
<b>REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE WITH OMB CIRCULAR A-133</b>	<b>4 – 5</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>6 – 10</b>
<b><u>BASIC FINANCIAL STATEMENTS:</u></b>	
Statements of Net Assets	11
Statements of Revenue, Expenses and Changes in Net Assets	12
Statements of Cash Flows	13
Notes to the Financial Statements	14 – 18
<b><u>SUPPLEMENTAL INFORMATION:</u></b>	
Schedule of Expenditures of Federal Awards	19
Notes to the Schedule of Expenditures of Federal Awards	20

# BRINING & NARTKER, P.C.

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## INDEPENDENT AUDITORS' REPORT

To the Board Members  
Huron Regional Water Authority  
Port Austin, Michigan

We have audited the accompanying basic financial statements of the Huron Regional Water Authority as of and for the years ended September 30, 2006 and 2005 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, Issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Huron Regional Water Authority as of September 30, 2006 and 2005 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2007 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Huron Regional Water Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements of the Huron Regional Water Authority. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Brining & Nartker, P.C.*

BRINING & NARTKER, P.C.  
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January 22, 2007

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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board Members  
Huron Regional Water Authority  
Port Austin, Michigan

We have audited the basic financial statements of the Huron Regional Water Authority as of and for the year ended September 30, 2006 and have issued our report thereon dated January 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Huron Regional Water Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Huron Regional Water Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, Board, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



BRINING & NARTKER, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

January 22, 2007

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE WITH OMB CIRCULAR A-133

To the Board Members  
Huron Regional Water Authority  
Port Austin, Michigan

### Compliance

We have audited the compliance of the Huron Regional Water Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The Huron Regional Water Authority's major federal programs are identified in the summary of the auditor's results section of the schedule of expenditures of federal awards. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Huron Regional Water Authority's management. Our responsibility is to express an opinion on the Huron Regional Water Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Huron Regional Water Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Huron Regional Water Authority's compliance with those requirements.

In our opinion the Huron Regional Water Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

### Internal Control Over Compliance

The management of the Huron Regional Water Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Huron Regional Water Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Brining & Nartker, P.C.*

BRINING & NARTKER, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

January 22, 2007



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# **HURON REGIONAL WATER AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FYE 10/1/05 thru 9/30/06**

The Huron Regional Water Authority (HRWA) is presenting the following discussion and analysis in order to provide an overall review of the utility's financial activities for the fiscal years ending September 30, 2005 thru September 30, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the basic financial statements in order to enhance their understanding of the utility's financial performance.

### **2006 FINANCIAL HIGHLIGHTS**

- The utility's operating revenues were 14.72% over the budgeted amount by \$163,849.
- The utility's operating expenses were 1.58% over the budgeted amount by \$156,400.
- The utility's total assets increased \$3,178,994 or 22% from 2005 to 2006. This increase is a direct result of the project nearing completion. Construction is now complete with the exception of punch list items.

### **GENERAL INFORMATION ABOUT HRWA**

In the mid 1990's, the City of Bad Axe and the Village of Port Austin were both facing unique challenges to provide their citizens with high quality clean drinking water. Bad Axe was facing a deadline for arsenic levels that the EPA imposed and, with their current system, would not be in compliance in the year 2006. Port Austin was facing a problem with their treatment plant that was going to need attention. The two communities decided that in the best interest of all involved, a regional water system would be appropriate to address these issues.

Over the next few years, the City of Bad Axe was awarded EPA grants calling for a matching fund to improve their water system and develop a seventeen-mile pipe-line to connect to the water supply in Port Austin. The EPA awarded approximately \$4,574,000 to develop this system. The Huron Regional Water Authority was formed in 2002 and work began on developing this project. With the help of USDA Rural Development and the EPA, the funding was put together to move this project forward. The project consisted of two segments. The first segment (Shared Facilities) consists of the water treatment plant and the peripheral support systems including the transmission line to the first booster station. The second segment (Separate Facilities) consists of the three booster stations, transmission main for the first station to the City of Bad Axe, a water tower located west of the City of Bad Axe and the support systems that go along with these units. The total cost of the joint projects had an estimated value of \$17,995,000.

A management agreement between the two entities established the authority. The board of directors consists of two members representing each entity and two alternates, one from each entity. The board has four officers; President, Vice-President, Secretary, and Treasurer. The members will serve a two-year term each with the terms staggered to allow each entity to have one position needing reappointment each year.

# HURON REGIONAL WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FYE 10/1/05 thru 9/30/06

### RATES

The utility established rates based on the projected budget. The budget utilizes the prior years metered flows to both the City of Bad Axe and the Village of Port Austin. The rates for the fiscal year ending September 30, 2006 were as follows: operations \$1.62 per 1,000 gallons of metered flow, shared facilities debt \$3.25 per 1,000 gallons of metered flow, and separate facilities debt \$1.62 per 1,000 gallons of metered flow.

### UTILITY FINANCIAL ANALYSIS

The statements of Net Assets include all of the utility's assets and liabilities and provide information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the utility.

We present a summary of the utility's Statement of Net Assets Table 1.

**Table 1**  
**Condensed Statements of Net Assets**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Current and Other Assets	\$111,969	\$72,455	\$200,291
Restricted Assets	0	0	143,714
Capital Assets	<u>6,681,186</u>	<u>14,378,761</u>	<u>17,286,205</u>
Total Assets	<u>6,793,155</u>	<u>14,451,216</u>	<u>17,630,210</u>
 Current Debt	0	105,000	88,424
Long Term Debt	<u>2,225,000</u>	<u>7,690,000</u>	<u>10,654,000</u>
Total Liabilities	<u>2,225,000</u>	<u>7,795,000</u>	<u>10,742,424</u>
 Invested in Capital Assets			
Net of Related Debt	4,573,751	6,671,770	6,776,304
Restricted	0	0	143,714
Unrestricted	<u>(5,596)</u>	<u>(15,554)</u>	<u>(32,232)</u>
 Total Net Assets	<u>\$4,568,155</u>	<u>\$6,656,216</u>	<u>\$6,887,786</u>

Net Assets increased slightly in 2006 due to substantial completion of the project construction. The total value of the capital assets increased during the 2006 year but depreciation is now being applied to the assets. Total liabilities increased as monies were drawn down on the bond issue from USDA Rural Development.

# HURON REGIONAL WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FYE 10/1/05 thru 9/30/06

### 2006 OPERATING RESULTS

**Table 2**  
**Condensed Statements of Revenues,**  
**Expenses and Changes in Net Assets**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Operating Revenues	\$0	\$0	\$724,637
Non-Operation Revenues	0	2,098,745	249,473
Total Revenues	<u>0</u>	<u>2,098,745</u>	<u>974,110</u>
Operating Expenses	5,596	11,403	391,080
Depreciation Expense	0	0	351,460
Non-Operating Expense	0	0	0
Total Expense	<u>5,596</u>	<u>11,403</u>	<u>742,540</u>
Income Before Capital Contributions and Transfers	(5, 596)	2,087,342	231,570
Capital Contributions Transfers - Tax Equivalent	<u>4,573,751</u>	<u>719</u>	<u>0</u>
Changes in Net Assets	4,568,155	2,088,061	231,570
Beginning Net Assets	0	4,568,155	6,656,216
Adjustment to Net Assets	<u>0</u>	<u>0</u>	<u>0</u>
Ending Net Assets	<u>\$4,568,155</u>	<u>\$6,656,216</u>	<u>\$6,887,786</u>

The utility began operations January 3, 2006 and generated operational revenues of \$724,637 and also received an additional grant for the EPA in the amount of \$248,248 to assist in the construction efforts.

# HURON REGIONAL WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FYE 10/1/05 thru 9/30/06

**Table 3**  
**OPERATING REVENUES AND EXPENSES**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>OPERATING REVENUES:</b>			
User Fees	\$0	\$ 0	\$724,637
Other	<u>0</u>	<u>0</u>	<u>0</u>
Total Operating Revenue	0	0	724,637
 <b>OPERATING EXPENSES:</b>			
Contractual services:			
Management Services	0	0	145,112
Legal	0	0	1,286
Audit and Engineering	0	5,595	0
Board Fees	0	0	0
Insurance	2,389	4,722	12,204
Other	3,207	1,086	263
Bond Interest Expense	0	0	232,215
Depreciation	0	0	351,460
 Total Operating Expenses	<u>5,596</u>	<u>11,403</u>	<u>742,540</u>
 <b>NET OPERATING INCOME(LOSS)</b>	<u><u>\$(5,596)</u></u>	<u><u>\$(11,403)</u></u>	<u><u>\$(17,903)</u></u>

### Revenues

The utility generated \$724,637 of operating revenue during its first nine months of operation. The utility began selling processed water to the City of Bad Axe and the Village of Port Austin on January 3, 2006. The utility budget for Fiscal Year Ending 9-30-06 projected water sales of approximately 111 million gallons. The utility actually sold just over 106 million gallons of water. The water rates for the 2007 fiscal year were set at: operating commodity charge, \$1.59 per 1,000 gallons; shared facilities debt charge of \$3.25 per 1,000 gallons; and the separate facilities debt charge of \$1.47 per 1,000.

### Expenses

Operating expenses totaled \$742,540 for the nine months of operation in 2006. Depreciation accounted for \$351,460 or 47% of the total operating expenses, while interest expense on the bond issues accounted for \$232,215 or 31% of the total expenses.

### DEBT

The utility has utilized United States Department of Agriculture Rural Development funds for the construction of this project. Approved funds for this project totaled \$11,335,000 of which \$3,540,000 was unspent at the beginning of this fiscal year. The utility spent \$2,879,000 of these funds during the fiscal year ending September 30, 2006. Repayment of these funds will be over forty (40) years.

# **HURON REGIONAL WATER AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FYE 10/1/05 thru 9/30/06**

### **GROWTH**

To provide growth for the utility, the City of Bad Axe is looking to expand its service area to potential customers such as the Huron Medical Care Facility, Huron Medical Center and the North Huron High School. The Village of Port Austin is looking to expand its service area to Pointe Aux Barques Township and small areas of Port Austin Township.

### **PROJECTED CAPITAL EXPENDITURES**

No capital improvements are planned at this time. The facility is new and any need for expansion will be determined by the growth of the two entities that are served by the utility.

### **ECONOMIC FACTORS**

Port Austin's service area is a resort town that has a year round population that has a high percentage of retirees on a fixed income. Port Austin also has a summer population that is double that of the year round population. The seasonality of this entity results in major fluctuations in the demand for water.

Bad Axe's service area has a steady population and the demand for water remains relatively constant year round.

### **UTILITY CONTACT INFORMATION**

This financial report is designed to provide our customers and creditors with a general overview of the utilities finances and to demonstrate the utilities accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the Huron Regional Water Authority, 76 W. Spring St., P.O. Box 549, Port Austin, Michigan 48467 or by phone at (989) 738-8140 or email at [hrwa@airadvantage.net](mailto:hrwa@airadvantage.net).

## **BASIC FINANCIAL STATEMENTS**

**HURON REGIONAL WATER AUTHORITY  
STATEMENTS OF NET ASSETS  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash - checking accounts (Note 2)	\$ 114,228	\$ 69,524
Cash - interest bearing savings - restricted	143,714	-
Accounts receivable	78,288	-
Prepaid expenses	7,775	2,931
Capital assets (Note 3)	17,286,205	14,378,761
<b>TOTAL ASSETS</b>	<u>17,630,210</u>	<u>14,451,216</u>
<u>LIABILITIES</u>		
Accounts payable	88,424	-
Bonds payable (Note 4)		
Due within one year	115,000	105,000
Due beyond one year	10,539,000	7,690,000
<b>TOTAL LIABILITIES</b>	<u>10,742,424</u>	<u>7,795,000</u>
<b>NET ASSETS:</b>		
Invested in capital assets - net of related debt	6,776,304	6,671,770
Restricted for bond repayment	143,714	-
Unrestricted (deficit)	(32,232)	(15,554)
<b>TOTAL NET ASSETS</b>	<u>\$ 6,887,786</u>	<u>\$ 6,656,216</u>

The accompanying notes are an integral part of the financial statements.



**HURON REGIONAL WATER AUTHORITY**  
**STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
OPERATING REVENUE	\$ 724,637	\$ -
TOTAL OPERATING REVENUE	<u>724,637</u>	<u>-</u>
OPERATING EXPENSES:		
Administrative expenses:		
Advertising	113	-
Bond interest	232,215	-
Insurance	12,204	4,722
Legal and professional	1,286	5,595
Miscellaneous	150	1,086
Contract management fees	145,112	-
Depreciation	351,460	-
TOTAL OPERATING EXPENSES	<u>742,540</u>	<u>11,403</u>
OPERATING INCOME (LOSS)	<u>(17,903)</u>	<u>(11,403)</u>
NONOPERATING REVENUE:		
Grants from Environmental Protection Agency	248,248	2,097,300
Interest income	1,225	1,445
TOTAL NONOPERATING REVENUE	<u>249,473</u>	<u>2,098,745</u>
NET INCOME	<u>231,570</u>	<u>2,087,342</u>
NET ASSETS - BEGINNING OF YEAR	6,656,216	4,568,155
ASSETS TRANSFERRED FROM THE CITY OF BAD AXE	-	719
NET ASSETS - END OF YEAR	<u><u>\$ 6,887,786</u></u>	<u><u>\$ 6,656,216</u></u>

The accompanying notes are an integral part of the financial statements.

**HURON REGIONAL WATER AUTHORITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers and users	\$ 646,349	\$ -
Cash payments to suppliers for goods and services	(307,500)	(10,877)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>338,849</u>	<u>(10,877)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments for the construction of capital assets	(3,258,904)	(7,697,575)
Collection of bond proceeds - USDA Rural Development	2,954,000	5,570,000
Payments of bonds - USDA Rural Development	(95,000)	-
Grants from Environmental Protection Agency	248,248	2,097,300
Cash transferred from the City of Bad Axe grant funds	-	719
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(151,656)</u>	<u>(29,556)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of interest bearing savings	(143,714)	-
Interest received on investments	1,225	1,445
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(142,489)</u>	<u>1,445</u>
NET INCREASE (DECREASE) IN CASH	<u>44,704</u>	<u>(38,988)</u>
CASH - BEGINNING OF YEAR	69,524	108,512
CASH - END OF YEAR	<u>\$ 114,228</u>	<u>\$ 69,524</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	(17,903)	(11,403)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	351,460	-
Changes in assets and liabilities:		
(Increase) in accounts receivable	(78,288)	-
(Increase) decrease in prepaid expenses	(4,844)	526
Increase in accounts payable	88,424	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 338,849</u>	<u>\$ (10,877)</u>

The accompanying notes are an integral part of the financial statements.

**HURON REGIONAL WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES:**

The Huron Regional Water Authority was jointly incorporated in 2004 by the Village of Port Austin and the City of Bad Axe (the municipalities) for the purpose of obtaining financing to construct Lake Huron water processing and purification facilities and selling purified water to the Municipalities.

The board consists of two members from the City of Bad and two members from the Village of Port Austin.

The Municipalities share of the operating costs is to be based on their respective gallon water consumption. Any contributions from the Municipalities for principal payments on bonds and acquisition of capital assets are to be credited to nonoperating revenue.

As of September 30, 2005 the water system was in the process of being constructed, but was not operational. It became operational on January 1, 2006.

**Reporting Entity** – In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, the definition of the reporting entity is based primarily on the premise of financial accountability. The Authority is a primary government and is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. These types of organizations are deemed to be component units.

Based on the provisions of GASB 14, there are no organizations that are deemed to be component units of the Authority.

**Basis of Accounting** – The Authority utilizes the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**Cash and Cash Equivalents** – The Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**Inventories** – Inventories are valued at cost, on a first-in, first-out basis, which approximates market value.

**Property, Plant and Equipment** – Property, plant and equipment are recorded at cost. Depreciation is computed using the straight-line method based upon the estimated useful lives, which range from 5 to 40 years.

**Accounting Estimates** – The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 – CASH:**

**Deposits** – The Authority's cash accounts consist of two interest bearing checking accounts. As of September 30, 2006, the carrying amount of the Authority's deposits was \$114,228 and the bank balance was \$278,940. Of the bank balance, \$100,000 was covered by Federal Depository Insurance. The Authority believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution it deposits Authority funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Additionally, the Authority has restricted passbook savings account balances totaling \$143,714 at the same bank as of September 30, 2006.

**HURON REGIONAL WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005  
(CONTINUED)**

**NOTE 3 – CAPITAL ASSETS:**

Capital asset activity for the year ended September 30, 2006 was as follows:

	September 30, <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	September 30, <u>2006</u>
Capital assets not being depreciated:				
Land - at cost	\$ 236,425	\$ 10,294	\$ -	\$ 246,719
Capital assets being depreciated - at cost:				
Bad Axe water tower	757,078	-	-	757,078
Bad Axe looping	743,927	-	-	743,927
Transmission main - separate	5,483,375	225,524	-	5,708,899
Booster stations	1,558,602	127,994	-	1,686,596
Water treatment plant	3,765,883	2,876,208	-	6,642,091
Water intake	912,000	39,387	-	951,387
Transmission main - shared	768,232	132,736	-	900,968
Capitalized interest	153,239	294,335	447,574	-
Total capital assets being depreciated	<u>14,142,336</u>	<u>3,696,184</u>	<u>447,574</u>	<u>17,390,946</u>
Total capital assets	<u>14,378,761</u>	<u>3,706,478</u>	<u>447,574</u>	<u>17,637,665</u>
Less accumulated depreciation:				
Bad Axe water tower	-	18,927	-	18,927
Bad Axe looping	-	13,948	-	13,948
Transmission main - separate	-	107,845	-	107,845
Booster stations	-	32,240	-	32,240
Water treatment plant	-	137,715	-	137,715
Water intake	-	23,785	-	23,785
Transmission main - shared	-	17,000	-	17,000
Total accumulated depreciation	<u>-</u>	<u>351,460</u>	<u>-</u>	<u>351,460</u>
Total capital assets - net	<u><u>\$ 14,378,761</u></u>	<u><u>\$ 3,355,018</u></u>	<u><u>\$ 447,574</u></u>	<u><u>\$ 17,286,205</u></u>

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The water system became operational on January 1, 2006 at which time depreciation began to be calculated. Interest during the construction phase of the capital assets amounted to \$447,574 and is included as part of the capitalized value of the assets constructed.

(Continued)

**HURON REGIONAL WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005  
(CONTINUED)**

**NOTE 3 – CAPITAL ASSETS:** (Continued)

Depreciation of these assets is charged as an operating expense and is calculated on a straight-line basis over the estimated useful lives as follows:

<u>Asset Classification</u>	<u>Depreciable Life</u>
Bad Axe water tower	30
Bad Axe looping	40
Transmission main - separate	30-40
Booster stations	15-40
Water treatment plant	5-40
Water intake	30
Transmission main - shared	30-40

Depreciation expense was \$351,460 for the year ended September 30, 2006.

**NOTE 4 – BONDS PAYABLE:**

The Authority has been approved to issue bonds for the construction of capital facilities by U.S.D.A. Rural Development as follows:

	<u>Shared Series 2004 A Water Supply System Revenue Bonds</u>	<u>Separate Series 2004 B Water Supply System Revenue Bonds</u>	<u>Separate Series 2004 C Water Supply System Revenue Bonds</u>	<u>Total</u>
Bonds approved	<u>\$ 8,220,000</u>	<u>\$ 1,289,000</u>	<u>\$ 1,826,000</u>	<u>\$ 11,335,000</u>
Bond proceeds as of:				
September 30, 2004	\$ 1,924,000	\$ 135,000	\$ 166,000	\$ 2,225,000
September 30, 2005	2,756,000	1,154,000	1,660,000	5,570,000
September 30, 2006	<u>2,954,000</u>	<u>-</u>	<u>-</u>	<u>2,954,000</u>
Total bond proceeds	<u>7,634,000</u>	<u>1,289,000</u>	<u>1,826,000</u>	<u>10,749,000</u>
Bond payments as of:				
September 30, 2006	<u>75,000</u>	<u>11,000</u>	<u>9,000</u>	<u>95,000</u>
Total bond payments	<u>75,000</u>	<u>11,000</u>	<u>9,000</u>	<u>95,000</u>
Balance owing at September 30, 2006	<u>\$ 7,559,000</u>	<u>\$ 1,278,000</u>	<u>\$ 1,817,000</u>	<u>\$ 10,654,000</u>

(Continued)

**HURON REGIONAL WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005  
(CONTINUED)**

**NOTE 4 – BONDS PAYABLE:** (Continued)

Interest accrues at the rate of 4.5% and is due October 1 and April 1 on the unpaid balance of the bonds. Principal is due annually on October 1 according to the following estimated schedule of debt service requirements to maturity, when the project is finalized:

<u>Year Ending September 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 115,000	\$ 505,350	\$ 620,350
2008	120,000	500,175	620,175
2009	130,000	494,775	624,775
2010	135,000	488,925	623,925
2011 - 2015	755,000	2,349,000	3,104,000
2016 - 2020	910,000	2,166,300	3,076,300
2021 - 2025	1,195,000	1,937,700	3,132,700
2026 - 2030	1,525,000	1,640,250	3,165,250
2031 - 2035	1,900,000	1,263,375	3,163,375
2036 - 2040	2,280,000	802,125	3,082,125
2041 - 2044	2,175,000	248,400	2,423,400
	<u>\$ 11,240,000</u>	<u>\$ 12,396,375</u>	<u>\$ 23,636,375</u>

The Village of Port Austin and the City of Bad Axe have irrevocably pledged the net revenues of their respective water supply systems for their respective obligations for bond payments. In addition, they have agreed to make additional payments to the Authority for operation and maintenance expenses to support the Authority. The obligations of each local unit under the contract are not general obligations of each local unit, but are limited to the net revenues of each local unit's water supply system.

**NOTE 5 – WATER SUPPLY MANAGEMENT CONTRACT:**

The Authority operates under a contract whereby it owns, maintains and operates shared facilities. These shared facilities consist of a lake water intake, a treatment plant, a water pumping station and a transmission line from the treatment plant to the connection point. The Authority also owns separate facilities which are leased to the City of Bad Axe for \$1 per year for the term of the contract (40 years). The City of Bad Axe is solely responsible for the operation and maintenance of the separate facilities and has the exclusive right to determine which customer in its service area shall be connected to the separate facilities. The separate facilities consist of the water transmission line and pumping stations between the connection point and the City limits, the water tower located in Colfax Township and other looping improvements.

The shared facilities and separate facilities are to be financed by a combination of grants and bonds totaling approximately \$13,680,000 (\$10,317,000 shared facilities and \$3,363,000 separate facilities). In addition, the Village of Port Austin transferred its equity interest in land and the lake water intake to the Authority. The City of Bad Axe assigned capital assets totaling \$4,573,751 to the Authority as part of the separate facilities. The City paid for these assets with federal grant monies and has agreed to indemnify and hold the Authority harmless from any liabilities resulting from any subsequent audit of these grant proceeds.

**NOTE 6 – RISK MANAGEMENT:**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, and natural disasters. The Authority participates in the Township Participating Plan through Michigan Community Underwriters for claims related to property loss, natural disasters, general liability, errors and omissions and auto liability.

**HURON REGIONAL WATER AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005  
(CONTINUED)**

**NOTE 7 – SUBSEQUENT EVENT:**

On December 19, 2006 the Authority entered into an agreement with Wade Trim Operation Services, Inc. to provide operational services for the water facility. The term of the agreement is for five years beginning December 19, 2006 at an annual cost of \$208,800, including maintenance, chemical, and electric power allowances. The agreement has renewal options for three additional years. Future adjustments to the contract can be negotiated if the Consumer Price Index exceeds 4% or if flow changes by more than 5%. Additionally, the Authority will pay for all capital expenditures and will maintain property insurance on the facilities. Major services provided by Wade Trim Operation Services, Inc. include:

- 1) Day to day operational costs of the water system, including labor costs and utility and chemical costs, within allowances.
- 2) Preventive and corrective maintenance and repairs up to \$7,000 per year.
- 3) Reading, billing and collection services.
- 4) Acting as the Authority's liaison with local, state and federal regulatory agencies.

For the year ended September 30, 2006, Wade Trim Operation Services, Inc. provided these services on a non-contractual basis for \$145,112.

## **SUPPLEMENTAL INFORMATION**



**HURON REGIONAL WATER AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

<u>Federal Grantor</u>	<u>Federal C.F.D.A. Number</u>	<u>Current Year Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Water System Revenue Bonds	10.760	\$ 3,010,656
<u>Environmental Protection Agency</u>		
Water Division Grants	66.606	\$ 248,248
Total Capitalized Expenditures of Federal Awards		<u>\$ 3,258,904</u>

**HURON REGIONAL WATER AUTHORITY  
NOTES TO THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**BASIS OF PRESENTATION:**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Huron Regional Water Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS:**

Section I - Summary of Auditor's Results

**Financial Statements**

Type of auditor's report issued : Unqualified

Internal control over financial reporting:

•Material weakness(es) identified? \_\_\_\_\_ yes \_\_\_\_\_ X no

•Reportable condition(s) identified that are not considered  
to be material weaknesses? \_\_\_\_\_ yes \_\_\_\_\_ X none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes \_\_\_\_\_ X no

**Federal Awards**

Internal control over major programs:

•Material weakness(es) identified? \_\_\_\_\_ yes \_\_\_\_\_ X no

•Reportable condition(s) identified that are not considered  
to be material weakness(es)? \_\_\_\_\_ yes \_\_\_\_\_ X none reported

Type of auditor's report issued on compliance for major  
programs: Unqualified

Any audit findings disclosed that are required to be reported  
in accordance with section 510(a) of OMB Circular A-133? \_\_\_\_\_ yes \_\_\_\_\_ X no

Major Programs C.F.D.A. Numbers

Name of Federal Program

10.760

Water System Revenue Bonds

Dollar threshold used to distinguish between  
type A and type B Programs \$300,000

Auditee qualified as low risk auditee \_\_\_\_\_ yes \_\_\_\_\_ X no

Section II- Financial Statement Findings

Current year finding - none

Section III- Federal Award Findings and Questioned Costs

Current year finding - none